BANK OF ENGLAND

REPORT FOR THE YEAR ENDED

28th FEBRUARY

1963

Issued by Order of the Court of Directors, 27th June 1963

ONE SHILLING NET

COURT OF DIRECTORS

28TH FEBRUARY 1963

THE RT. HON. THE EARL OF CROMER, M.B.E., GOVERNOR.

HUMPHREY CHARLES BASKERVILLE MYNORS, ESQ., DEPUTY GOVERNOR.

SIR GEORGE EDMOND BRACKENBURY ABELL, K.C.I.E., O.B.E.

THE RT. HON. LORD BICESTER.

SIR GEORGE LEWIS FRENCH BOLTON, K.C.M.G.

GEOFFREY CECIL RYVES ELEY, ESQ., C.B.E.

*SIR CHARLES JOCELYN HAMBRO, K.B.E., M.C.

†SIR JOHN COLDBROOK HANBURY-WILLIAMS, C.V.O.

*WILLIAM JOHNSTON KESWICK, ESQ.

*THE RT. HON. LORD KINDERSLEY, C.B.E., M.C.

*THE RT. HON. LORD NELSON OF STAFFORD.

LESLIE KENNETH O'BRIEN, ESQ.

MAURICE HENRY PARSONS, ESQ.

SIR WILLIAM HENRY PILKINGTON.

SIR ALFRED ROBERTS, C.B.E., J.P.

THE RT. HON. LORD SANDERSON OF AYOT, M.C.

MICHAEL JAMES BABINGTON SMITH, ESQ., C.B.E.

JOHN MELIOR STEVENS, ESQ., D.S.O., O.B.E.

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* The term of office of these Directors expired on the 28th February 1963 and they were reappointed for a period of four years.

† Sir John Hanbury-Williams resigned on the 28th February 1963 and Mr. J. M. Laing was appointed for the remainder of his term of office, namely until the 29th February 1964.

BANK OF ENGLAND

Report for the year ended 28th February 1963

The events of the year, both domestic and external, have been discussed in the *Quarterly Bulletins* issued by the Bank in 1962 and the first half of 1963. This Report deals in more summary fashion with the year as a whole, first with events in the domestic field, then with external monetary developments, and finally with various aspects of the Bank's work.

Last year's Report covered a period which fell into two distinct parts. During the first five months, from March to July 1961, sterling was weak and the reserves of gold and convertible currencies would have fallen steeply but for massive help from other central banks under the Basle arrangements. At home, demand was pressing strongly upon resources and costs were rising. In July, steps were taken to resolve the crisis and the last seven months, from August 1961 to February 1962, were a time when the external position improved and strains upon the domestic economy diminished.

There is no such clear dividing line in the period covered by this year's Report. The chief event, the breakdown of the negotiations for the United Kingdom to enter the European Economic Community, occurred near the end of the twelve months, and had no immediate effect on the U.K. economy although it led briefly to some heavy sales of sterling of a speculative character. It is therefore convenient to regard the year as a unity and to describe its main aspects separately rather than to attempt a single chronological narrative covering them all.

General economic background

When the year opened in March 1962 output was rising, and the rise seemed likely to continue. Government expenditure was growing, and there were also prospects of increased personal consumption and higher exports. Real incomes were likely to rise, and it was then thought that hire purchase debt would probably turn upward, because a large number of hire purchase contracts entered into in both 1959 and 1960 were about to reach final maturity, and users of hire purchase would be free to enter into new commitments. World trade was expanding, and demand for the type of goods produced by the United Kingdom was increasing.

In fact, output reached a plateau during the summer, and after September it fell. Exports did not in fact increase after the middle of the calendar year; business confidence weakened; and personal consumption did not rise much. Industry had little cause to add to its stocks, and its fixed investment, already lower than a year earlier, fell further. This decline was due partly to the general uncertainty and partly to the difficulty of planning ahead until the negotiations with the European Economic Community had been concluded. The sluggishness of output and the uncertain future had combined with the usual seasonal factor to bring about a sharp rise in unemployment. The percentage rate for Great Britain, which had stood at 1·8 in June, had by December reached 2·5. Output was low in both January and February, when the abnormally severe winter was at its worst, and the percentage rate rose to 3·9; Scotland, Wales and Northern England were particularly badly affected.

Wages rose more slowly in 1962 than in 1961. Company profits, which had fallen during 1961, rose during 1962, and were much the same in total in each year. Retail prices increased by about 3% over 1962 as a whole, or by rather less than in 1961.

The balance of payments

The balance of payments improved during the first part of the year under review, weakened during

the middle of the year, and improved again during the closing stages. Sterling was strong when the year opened, and the reserves rose in each month from March to May. This rise was due in part to seasonal factors, and in part to an inflow of funds from abroad which appears to have begun in January 1962. There was also probably some improvement in the underlying situation at this time; exports, seasonally adjusted, rose in each month from March to June. In July the United Kingdom repaid the outstanding balance (£183 million) of the drawing which had been made from the International Monetary Fund a year earlier. In August and September sterling weakened, and some official support was provided. This weakening was greater than might have been expected on seasonal grounds; imports, after seasonal adjustment, were higher in the third calendar quarter than in the second, and exports scarcely changed.

Sterling strengthened again in the fourth calendar quarter, and the reserves rose in October and November. They would also have risen in December but for the end-year service of the post-war loans from the United States and Canada. Imports, seasonally adjusted, fell back again in the fourth quarter. Exports were again little changed; British wage costs do not appear to have been rising at this time in relation to those of most other countries, but there was apparently some slackening in the growth of world trade in manufactured goods. In continental Western Europe, as in the United Kingdom, fixed investment by manufacturing industry was slowing down, and demand for capital goods, which the United Kingdom largely exports to that market, was less strong. Sales to North America also fell generally during the fourth quarter, but sales to overseas sterling countries rose. The reserves rose again in January but sterling came under strong pressure for a short period after the breakdown of the Brussels negotiations, and the reserves fell in February.

Official policy

As the situation developed, official measures were taken to help the economy to go forward. At first these measures mainly took the form of removing domestic restraints imposed in 1961 or earlier, and later mainly of stimulation. The measures were of both a monetary and a general economic character.

Bank Rate had been lowered from 7% to 6% in two stages during the last quarter of 1961, and three further reductions, each of ½%, were made on the 8th and 22nd March and on the 26th April 1962, bringing the Rate down to 4½%. At the end of May it was announced that the Special Deposits of 1% and ½% called from the London clearing banks and Scottish banks respectively in July 1961 would be released during June. These releases reduced the amounts still called to 2% and 1% respectively. These banks and other financial institutions were asked to keep within modest limits any relaxation in lending connected with consumption at home, and to continue to exercise restraint in lending for speculative purposes, particularly for building and property development. They were also asked to continue to pay primary regard to the requirements of exports. Shortly after the release of Special Deposits was announced, hire purchase restrictions were relaxed; the minimum initial deposit, previously 20% for most goods, was reduced to 10% on all goods except cars.

A second release of Special Deposits, amounting again to 1% for the London clearing banks and ½% for the Scottish banks, was announced at the end of September, and early in October the banks and other financial institutions were informed that the requests made to them in July 1961 and May 1962 to exercise restraint and discrimination in the granting of credit had been withdrawn. At the end of November it was announced that the remaining Special Deposits (1% for the London clearing banks and ½% for the Scottish banks) would be released during December. On the 3rd January 1963 Bank Rate was reduced to 4%.

The easing of credit conditions and the reduction in short-term interest rates described above were accompanied by a fall in long-term interest rates. This fall reflected mainly a change in the underlying condition of the market, but partly official operations in gilt-edged stocks, which were designed to allow a steady and sustainable fall in rates to take place.

Changes in monetary policy were closely aligned to changes in other fields of economic

policy. Fiscal policy began by avoiding any stimulation of demand but changed course later on, with reductions in purchase tax, an additional release of post-war credits, and announcements of increases in public sector capital expenditure (particularly in Scotland and the North of England), and in social benefits, and of additional tax concessions for investment in plant, machinery, and industrial building. The work of the National Economic Development Council went ahead; and in February 1963 the Government accepted a rate of economic growth of 4% per annum as an objective. Finally, there were further developments in the evolution of an 'incomes policy': the 'pay pause' ended in March, and the Government stated in a White Paper that the increase in incomes should be kept within 2% to 2½% a year during the next phase. Later in 1962 the National Incomes Commission was set up.

Domestic monetary developments The monetary situation developing during the year reflected clearly the general economic background. Government expenditure was rising, but the budgetary position remained strong, so that the need for market borrowing was restrained. Local authorities, unlike the Central Government, finance most of their capital expenditure by borrowing, and because this expenditure was rising their demands on the market were large. Companies' capital investment was falling during the year and their stockbuilding was low; their demands on the capital market were therefore less in 1962 than in 1961. On the other hand output was falling after the middle of the year, and although companies were holding down costs by streamlining their methods of operation and their labour force, profits were still proving hard to earn. Thus, in spite of the modest demand for new capital, the equity market was subdued during most of the year under review. Total personal incomes were meanwhile being well maintained, despite unemployment, and because personal consumption was not rising much a considerable volume of new savings was continuing to come forward. Demand for gilt-edged and other fixed interest securities was therefore strong, particularly during the third calendar quarter. The conditions during most of the year provided a favourable opportunity for an easing of credit and a general fall in interest rates.

Long-dated and undated government stocks were yielding over 6% when the year opened, and such yields were attractive to many investors both at home and abroad. Official policy was not to oppose some decline in long-term interest rates. Lower rates would reduce the cost of servicing the National Debt, and cheapen house purchase, for both local authorities and private individuals, and should help in due course to promote a higher level of fixed investment by manufacturing industry. The market was firm up to June, and exceptionally strong during the third calendar quarter. The long-term rate of interest fell sharply during these three months—the yield on a 20-year government stock from about 6¼% to about 5¼%, and the yield on an industrial debenture of the same maturity from about 7% to about 6¼%. Heavy buying of gilt-edged stocks came from the banks, the insurance companies and pension funds, and other domestic holders. The liquidity ratios of the London clearing banks, fortified by the release of Special Deposits, were high enough to permit such buying, even though their advances had turned sharply upward after May, when the first release had been announced and the restrictions on lending relaxed. The banks were anxious to raise their investment portfolios above the low points to which heavy sales in earlier years had reduced them. There were few reports of overseas buying of gilt-edged at this time; the inflow of overseas money, which had been a feature of the early months of 1962, had dwindled after the reduction of Bank Rate to 4½%.

Official policy during the third calendar quarter was to keep the fall in yields under control. A too rapid fall might have been reversed quickly, with damage to the market. Official sales of stock were very heavy; successive new issues of government stocks were quickly sold at a time when the market was also absorbing unusually large issues of local authority stocks. These sales moderated the fall in yields and also contributed to a significant lengthening in the average life of dated government stocks in the hands of the market, from rather more than twelve years in mid-June to rather more than thirteen in mid-October.

Official net sales of government stocks were large enough to cover the whole of the Exchequer's cash deficit for the three months to mid-September, with a little to spare. National Savings declined a little in the three months, for seasonal reasons, as did the note circulation. These falls were largely offset during these three months by new subscriptions to Tax Reserve Certificates; and the total of Treasury Bills in the hands of the market fell slightly.

Equity prices had risen a little between the beginning of March and the beginning of May, but they fell during the first three weeks of that month, and in the last week, following a steep decline on Wall Street, the fall was sharp. The general level of equity prices was scarcely changed over the four months June—September. A fall in prices in the first half of the period, coming at a time when gilt-edged yields were falling, took the dividend yield on the shares covered by the *Financial Times* industrial index above the yield on $2\frac{1}{2}\%$ Consols, for the first time since August 1959. The equity market had more new issues to absorb during the four months than earlier in 1962. This rise was mainly due to the banks, the insurance companies, and the property companies; demands by manufacturing industry for new capital were not heavy.

Gilt-edged stocks were less strong after the first few days of October than earlier in the year. At first there was some consolidation after so rapid an advance; thereafter the Sino-Indian dispute, and the grave international crisis over Cuba, were depressing influences. By the second half of January the impending breakdown in Brussels, and a belief that the Budget would foreshadow a period of heavier government borrowing from the gilt-edged market, were helping to keep gilt-edged prices down. The yield on a 20-year government stock rose from about $5\frac{1}{4}\%$ at the end of September to about $5\frac{3}{4}\%$ at the end of February. Official sales of stock were rarely heavy after mid-October, and at times, particularly during the Cuban crisis, and in February 1963, substantial official purchases were made. While gilt-edged prices fell a little during October—February, equity prices rose. The *Financial Times* industrial index went up from 270·0 to 306·2 over the five months, and was about 2% higher over the whole of the twelve months under review. During the final five months there were some indications that profits were rising. Fixed investment and the rate of stock accumulation were certainly falling, and this was helping to ease company liquidity. New capital issues declined after the third calendar quarter; the demands of the financial institutions upon the new issue market had diminished, while new issues by manufacturing industry remained low.

In the short-term money market, the Treasury Bill rate had fallen in March and April 1962, as Bank Rate had been brought down. The downward pressure continued during May, because a further reduction in Bank Rate was expected, and by mid-June the average rate of discount had declined to $3\frac{3}{4}\%$. There was little further change right up to February 1963, in spite of the reduction in Bank Rate in January. The Bank had made it known at this time that their loans to the discount market might in future be at a rate of interest above Bank Rate, instead of at Bank Rate. This change was designed to make it easier to sustain the Treasury Bill rate without raising Bank Rate, if, for example, external considerations pointed to a higher Treasury Bill rate and domestic considerations to a stable Bank Rate. The knowledge that higher rates might be charged helped to sustain the Treasury Bill rate during January and February.

Over the year to mid-March 1963 the Exchequer had a cash surplus of £42 million. About half of it arose from the Budget and other internal items, and about half from external items. The surplus compared with one of £30 million in the previous twelve months. During the year to mid-March 1963, the authorities made net sales of gilt-edged stocks amounting to £280 million; about half of these sales were absorbed by the London clearing banks. During the same period National Savings contributed £183 million to the Exchequer, about £100 million more than a year earlier. National Savings were particularly buoyant during the winter of 1962/63. Receipts by building societies, perhaps their most important competitor, were also high, and it seems that some people were adding more to their savings than usual, or withdrawing less, as a precaution in uncertain times.

Against the substantial sums received from National Savings and from sales of gilt-edged stocks, repayments amounting to £251 million were made to the Banking Department of the Bank of England (the three releases of Special Deposits had been matched by falls in the Banking Department's holdings of Treasury Bills) and total market holdings of Treasury Bills were reduced by £231 million. Rather over half this reduction was in Treasury Bills held by the London clearing banks.

Two important changes in the assets and liabilities of the London clearing banks during the year to mid-March—the rise in their Investments and the fall in their Treasury Bill holdings—have already been mentioned. Other important movements were a rise of £259 million in net deposits (compared with a rise of £106 million a year earlier), a fall of £220 million in Special Deposits and a rise of £464 million in Advances and other accounts. This rise brought Advances and other accounts to £3,839 million, or almost exactly 50% of gross deposits, the highest proportion since the war. The various changes in assets and liabilities reduced the liquidity ratio of the London clearing banks to 30·5% at mid-March 1963, compared with 32·6% in March 1962 (when Special Deposits amounted to 3%). The liquidity ratios of some clearing banks were below 30% at mid-March 1963; the Bank of England had let it be known that ratios somewhat below 30%, in that month and in the particular circumstances prevailing, would not be regarded with disfavour.

The main change in the Scottish banks' assets during the year to mid-March 1963 was a rise of £48 million in Advances and other accounts, to a new peak of £431 million. Investments and Special Deposits each fell by £12 million, and Treasury Bills by £8 million; net deposits with the Scottish banks were unchanged over the year as a whole.

The substantial inflow of funds to the building societies in the latter part of 1962 brought their total receipts from shares and deposits during the calendar year to about twice the total for 1961. The Building Societies Association had raised their recommended rates in the autumn of 1961, and no reductions were made until April 1963. The higher inflow during the later months of 1962 was probably also partly due to the general easing of restrictions on personal financing at this time; the banks were lending more freely after May, and initial deposits on some hire purchase contracts had been reduced. The amount advanced on mortgage was not much higher in 1962 than in 1961 and the societies added considerably to their liquid resources during 1962.

Local authorities remained active seekers of funds during 1962. For most of the time they relied less upon short-term borrowing, and more upon longer loans, whether by way of mortgage or of stock issue, than in the corresponding periods of earlier years. Local authorities were expecting the Government to impose some restriction upon their short-term borrowing, and were anxious to lengthen their debt in good time, while lenders, who were expecting that rates would fall further, favoured securities which provided a higher return for longer periods. Short-term borrowing increased much less than other borrowing during 1962 as a whole, in contrast to 1961.

Unlike the building societies and local authorities, the hire purchase finance houses reduced their total liabilities during 1962. Their main type of liability, borrowing on deposit, was unchanged during the year, but their other forms of borrowing, such as bill finance, declined. Except for a brief period during the middle of the year, debt due to the finance houses declined in each month of 1962, because new business was slow to come forward.

EXTERNAL MONETARY DEVELOPMENTS

International monetary co-operation

The rate of economic expansion in the European industrial countries slackened a little during the year under review, and public demand shifted away from investment and towards consumption goods. In the United States, where this shift did not occur, economic activity, while higher than in 1961, showed little change during the year. The balance of payments surpluses of most countries in continental Europe diminished, while the United Kingdom's current balance moved from deficit to surplus; but the United States' balance of payments deficit was much the same as in the previous year. The prices of many commodities, particularly foodstuffs, rose in the latter part of the year and the terms of trade tended to move in favour of the primary producing countries.

The international payments position was thus in a number of ways in better balance than in the previous year. Apart from a period between late May, when prices fell on Wall Street, and late July, when President Kennedy made his "Telstar" broadcast, 1962 was free from large-scale speculative movements in U.S. dollars, sterling, or any other of the major European currencies; the Canadian dollar however came under severe pressure for a time, as mentioned later in this Report. The generally calmer atmosphere was also partly due to the demonstration in the previous year that the monetary authorities in the leading financial centres stood ready to use their combined strength to resist speculative attacks on the main currencies.

The year was therefore principally one of consolidating and developing international defences against future monetary disturbance. The United States built up a network of swap and similar arrangements; the International Monetary Fund's borrowing scheme came into force; the United Kingdom reconstituted its drawing facilities with the Fund; and attention was given in a number of countries to the longer-term problem of ensuring that the means of international payment remained adequate.

In August and September 1961 the United Kingdom had drawn from the I.M.F. £536 million ($1,500 million) and had arranged a one-year standby of a further £179 million ($500 million). With the subsequent improvement in the reserves a part of the drawing had been repaid in the following October. The continuing strength of sterling made further repayments possible, and drawings of sterling by other countries also reduced the U.K. obligation, so that the drawing was repaid in full by the end of July 1962. This repayment within one year of the largest sum yet drawn emphasized the revolving nature of the Fund's resources. No drawings were made under the standby, but on its expiry a further one-year standby, for £357 million ($1,000 million), was arranged as an additional protection against any temporary pressure on sterling. No drawings were made under this arrangement either.

At the end of January 1963 a short-lived burst of speculation against sterling followed the breakdown of negotiations for the United Kingdom's entry into the European Economic Community. There was fresh speculation in March but both attacks were contained; and the loss of reserves was made good with co-operation from a number of European monetary authorities.

The I.M.F. borrowing scheme

Further progress was made with this scheme, designed as a defence against temporarily adverse balance of payments positions or speculative movements; in January 1962 the Fund had been empowered, subject to ratification by the countries concerned, to borrow the currencies of ten major industrial countries equivalent in total to £2,143 million ($6,000 million). The United Kingdom's commitment under these borrowing arrangements is £357 million ($1,000 million).

The arrangements became effective in October 1962, and except for Canada, where legislation is still required, all the participating

countries have now adhered to it, but no borrowings have yet been made under the scheme. The Fund also invited Switzerland, a non-member, to be associated with the scheme, and discussions are continuing.

International liquidity proposals

At the Annual Meeting of the I.M.F. in September the Chancellor of the Exchequer referred to developments in the system of international payments during recent years and suggested that international liquidity, while adequate for the moment, might need to be increased in future if world trade were to continue to grow satisfactorily; and that ways of securing such an increase, without imposing additional strains on the reserve currencies, should be examined. By way of illustration, the Chancellor offered tentative proposals for a possible "Mutual Currency Account" to be operated under the aegis of the I.M.F. There have since been discussions on this and other suggestions for the development of the international payments system, which are continuing.

Financial support for Canada

The only major international support operation during the year was in June 1962, when assistance for Canada, totalling U.S.$1,050 million in cash and standby credits, was mobilised in a few days from the United States, the United Kingdom and the I.M.F. Assistance from the United Kingdom took two forms. U.S.$100 million was made available by the Bank of England to the Bank of Canada, and £36 million was included in Canada's drawing from the I.M.F. which totalled the equivalent of U.S.$300 million. The subsequent improvement in Canada's external position enabled her to repay the sums borrowed, apart from the I.M.F. drawing, during the last quarter of 1962.

The London gold market

International demand for gold became heavy in two periods during the year. The first started towards the end of May 1962, following a sharp fall in the prices of industrial shares in the United States, and lasted until President Kennedy confirmed on the 23rd July that the United States had no intention of changing the official dollar price for gold. The second lasted for a very brief period during the Cuban crisis in October. At both times the Bank of England made substantial sales of gold to prevent or moderate rises in its price. On one day in October turnover in the market and sales by the Bank were the heaviest since the re-opening of the market in 1954. In the last four months of the year under review, as in the first two, demand was only moderate; and significant amounts of gold accrued through the market to the reserves of the main Western countries. Throughout the year under review the Bank of England, in their operations in the gold market, co-operated closely with the monetary authorities of those countries.

The Bank for International Settlements

The B.I.S. continued to provide a forum, at its monthly Board meetings in Basle, for the exchange of views between central bankers. It also contributed further to international monetary co-operation, by assisting in smoothing out temporary exchange fluctuations by entering into currency and gold swap operations with central banks.

The European Monetary Agreement

A review of the Agreement was carried out during 1962. Under the original Agreement, one member's holding of another member's currency which fell within the provisions of Article 11 (*a*) (ii) was in effect guaranteed in terms of U.S. dollars without limit. Following an exchange of letters between other central banks of member countries and the Bank of England, it was agreed that from the 1st March 1963 the amount of sterling eligible for settlement under these provisions would be limited to a maximum of £11¼ million at any one time; reciprocal limits would also apply to the Bank of England's holdings of other members' currencies. An unlimited guarantee still attaches to other E.M.A. currencies held by other member central banks.

A procedure was also agreed for notifying to the Board of Management of E.M.A. any

special operations undertaken by member central banks in support of a member's currency.

There will be a further review of the Agreement in 1963.

Finance for developing countries

During the year Western nations and Japan provided further assistance to developing countries, and the I.M.F. made new arrangements to help primary producing countries.

Development aid extended on government account by countries belonging to the Development Assistance Committee of the Organisation for Economic Co-operation and Development has risen by approximately 80% over the last five years. U.K. disbursements of official aid have shown a similar expansion: in the financial year 1962/63 they amounted to £148 million, representing an increase of 83% over the comparable figure of £81 million for 1957/58. This very large increase reflects the continuing growth of assistance to those countries, such as India and Pakistan, which have been receiving aid for some years, and also the rising volume made available to many countries which achieved political independence more recently. Developing countries obtain not only government aid and private foreign investment but also a substantial volume of commercial credit from foreign exporters under suppliers' credits. These now account for a significant proportion of the external debt service of many borrowing countries. If allowed to grow, this may seriously aggravate their problems, unless the projects themselves bring a commensurate relief.

The work of the Development Assistance Committee itself has continued, and Denmark and Norway have joined the Committee. The first annual review of members' aid policies and programmes was held in July 1962. Members agreed to consider the effectiveness of various forms of aid, the effects of tying aid to the exports of the country providing it, and the need for co-ordinating members' policies and programmes as they apply to specific regions and countries.

The International Bank for Reconstruction and Development and the International Development Association

The International Bank has played an important role in post-war years in providing finance for development projects, but its operations may now expand less rapidly. Many primary producing countries have found themselves in balance of payments difficulties and less able to comply with the Bank's strict criteria; and some other countries have borrowed as much as they can afford to service. These factors limit the I.B.R.D.'s work, and emphasise the need for the finance provided by the I.D.A.—long-term credits carrying a low rate of interest. It has been recognised that the resources at present available, or becoming available, to the Association are insufficient to meet this growing demand. Its prospective financial requirements are under review and ways of increasing its resources are being discussed.

The I.M.F. compensatory finance arrangements

In response to a request from the United Nations Commission on International Commodity Trade, the I.M.F. has arranged to provide a new form of financial assistance to primary producing countries experiencing balance of payments difficulties as a result of fluctuations in export earnings. The new facility, whereby member countries facing a temporary shortfall in earnings may be able to obtain support from the Fund more readily, allows for special drawings of up to 25% of quota, provided the Fund is satisfied that the fall in export earnings is temporary and largely attributable to circumstances beyond the control of the member; the member is required, where appropriate, to co-operate with the Fund in seeking suitable solutions to its balance of payments difficulties. These special drawings will be subject to the Fund's established policies and practices on repurchase, and where appropriate, the Fund will waive its requirement that its total holding of a member's currency should not exceed 200% of quota. The Fund will also be willing to give sympathetic consideration to proposals for enlarging the quotas of such countries.

STATEMENTS, ACCOUNTS AND OTHER ITEMS

BANKING DEPARTMENT

The liabilities and assets of the Banking Department at the beginning and end of the year were as follows:

£ thousands

End of February	1962		1963		Change	
Liabilities						
Capital		14,553		14,553		—
Rest		3,918		3,919		+ 1
Deposits :						
Public Deposits ...	13,145		11,392		− 1,753	
Special Deposits ...	241,400		—		−241,400	
Bankers' Deposits ...	249,249		279,928		+ 30,679	
Other Accounts ...	72,902	576,696	73,932	365,252	+ 1,030	−211,444
		595,167		383,724		−211,443
Assets						
Government Securities ...		506,640		265,542		−241,098
Other Securities :						
Discounts and Advances	44,083		54,474		+ 10,391	
Securities	20,378	64,461	21,830	76,304	+ 1,452	+ 11,843
Notes		23,217		41,038		+ 17,821
Coin		849		840		− 9
		595,167		383,724		−211,443

Half-yearly payments of £873,180 were made to H.M. Treasury on the 5th April and the 5th October 1962 in pursuance of Section 1 (4) of the Bank of England Act, 1946.

ISSUE DEPARTMENT

The liabilities and assets of the Issue Department at the beginning and end of the year were as follows:

£ thousands

End of February	1962	1963	Change
Liabilities			
Notes in Circulation	2,302,141	2,309,322	+ 7,181
Notes in Banking Department ...	23,217	41,038	+17,821
Notes issued	2,325,358	2,350,360	+25,002
Assets			
Government Debt	11,015	11,015	—
Other Government Securities	2,312,950	2,338,014	+25,064
Other Securities	775	709	− 66
Coin other than Gold Coin	260	262	+ 2
Fiduciary Issue	2,325,000	2,350,000	+25,000
Gold Coin and Bullion	358	360	+ 2
	2,325,358	2,350,360	+25,002

NOTE CIRCULATION

Changes in the note circulation in recent years are shown in the following tables:

NOTES ISSUED, PAID AND IN CIRCULATION

£ millions

Year to end of February	1959	1960	1961	1962	1963
Issued	1,672	1,861	2,067	2,268	2,403
Paid	1,624	1,759	1,970	2,179	2,396
In circulation at the end of year	2,014	2,116	2,213	2,302	2,309
Increase in circulation as % of previous year's total	2·4%	5·1%	4·6%	4·0%	0·3%

£ thousands

End of February	1959	1960	1961	1962	1963
10*s*.	98,639	100,686	99,468	103,714	95,481
£1	1,265,124	1,218,636	1,153,329	1,091,365	982,963
£5	537,910	686,898	848,649	998,491	1,124,132
£10	540	509	476	447	400
£20	241	225	199	193	185
£50	481	447	397	382	357
£100	858	792	690	660	628
£200(a)	7	—	—	—	—
£500	79	64	61	57	52
£1,000	100	86	82	82	74
Over £1,000(b)	109,850	107,550	109,150	106,750	105,050
	2,013,829	2,115,893	2,212,501	2,302,141	2,309,322

The issue of £10, £20, £50, £100, £500 and £1,000 notes was discontinued in 1943, that of £200 notes in 1928.

DENOMINATIONS OF NOTES

Percentages by value of total circulation

End of February	1956(c)	1961	1962	1963
	%	%	%	%
10*s*.	5·3	4·5	4·5	4·1
£1	75·9	52·1	47·4	42·6
£5	13·5	38·4	43·4	48·7
£10-£1,000	0·2	0·1	0·1	0·1
Over £1,000	5·1	4·9	4·6	4·5
	100·0	100·0	100·0	100·0

£1 notes of the old series issued during the years 1928 to 1960 and 10*s*. notes of the same type issued from 1928 to 1961 were called in on the 28th May and the 29th October 1962 respectively. These notes, though no longer legal tender, are still exchangeable at the Head Office of the Bank of England; nearly £29 million in £1 notes and £10 million in 10*s*. notes remained outstanding at the end of the year. It is estimated that the effect of this withdrawal was to reduce the total of notes with the public by about £90 million.

The highest point reached by the note circulation in 1962 was £2,453 million on Monday, the 24th December; this figure, though £5 million lower than the highest figure for Christmas 1961, probably reflects some increase in active circulation if the effect of the withdrawal of old notes is taken into account.

£5 notes of a new design, the third in the series bearing a portrait of Her Majesty the Queen, were first issued on the 21st February 1963. The new note is about ¼″ narrower and ¾″ shorter than the note it replaces; it is the same length as the 10*s*. note, but wider.

(a) The last notes of this denomination in circulation have been written off, pursuant to Section 6 of the Bank Act, 1892.

(b) Used only within the Bank of England, *e.g.*, for transfers made by banks of issue in Scotland and Northern Ireland as cover for their excess note issues.

(c) Before the introduction, in February 1957, of a new £5 note.

The Fiduciary Issue rose on balance over the year by £25 million to £2,350 million. The changes were as follows:

£ *millions*					
1962	March 1st ...				2,325
	March 6th ...	+50			
	July 24th ...	+50			
	August 16th ...		−50		
	September 12th ...		−50		
	November 20th ...	+50			
	December 5th ...	+50			
	December 12th ...	+50			
	December 20th ...	+25			
1963	January 1st ...		−50		
	January 4th ...		−50		
	January 14th ...		−50		2,350

MANAGEMENT OF STOCK REGISTERS

The nominal totals in recent years (and, for 1963, the number of accounts) of the different groups of Stocks managed by the Bank are given below:

£ *millions* **End of February**	**1960**	**1961**	**1962**	**1963**	Number of accounts *000's* **1963**
British Government Securities:					
Stock	14,782	15,716	15,084	17,716[a]	2,306
Bearer Bonds	14	13	13	13	—
Total	14,796	15,729	15,097	17,729	2,306
Other securities:					
Government Guaranteed	3,315	3,311	3,300	1,851[a]	298
Commonwealth, etc.	226	214	230	237	79
Local Authorities	221	241	253	298	120
Public Boards, etc.	71	76	85	82	32
Miscellaneous	15	15	15	15	1
Total	3,848	3,857	3,883	2,483	530
Grand Total	18,644	19,586	18,980	20,212	2,836

NOTE: The figures for British Government Securities do not include—

(i) amounts on the Registers of the Bank of Ireland, the Post Office Savings Department and the Trustee Savings Banks;

(ii) Tax Reserve Certificates and interest-free loans.

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[a] On the 1st January 1963, the full liability for Stocks of the British Transport Commission (£1,443·6 million) was assumed by H.M. Treasury under the Transport Act, 1962.

Operations undertaken during the year included:

REPAYMENTS

At par

		£ *millions*
$3\frac{1}{2}$% London County Consolidated Stock 1952/62	15th July 1962	10
$5\frac{1}{2}$% Treasury Bonds 1962	14th November 1962	9·4

ISSUES

For cash

			£ *millions*
5% Treasury Stock 1986/89	@ £84: 10*s*.%	9th May 1962	300
London County 6% Stock 1972	@ £95: 10*s*.%	7th June 1962	40
5% Exchequer Stock 1967	@ £98%	20th June 1962	400
New Zealand Government 6% Stock 1975/76 ...	@ £97%	30th August 1962	10
$5\frac{1}{2}$% Treasury Stock 2008/12	@ £95%	5th September 1962	500
4% Treasury Stock 1965	@ £99: 10*s*.%	4th October 1962	100
Liverpool Corporation $5\frac{1}{2}$% Redeemable Stock 1971/75	@ £99: 10*s*.%	5th October 1962	15

In exchange

4% Treasury Stock 1965 for $5\frac{1}{2}$% Treasury Bonds 1962 at par with a cash payment of 10*s*.%	14th November 1962	290·6

TAX RESERVE CERTIFICATES

The rate of interest payable on Tax Reserve Certificates, which is adjusted from time to time in the light of market rates, was reduced during the year from $3\frac{1}{4}$% on the 1st March 1962 to $2\frac{1}{4}$% on the 28th February 1963. Changes in the rate of interest since the 1st March 1958 have been as follows:

Date of change			New rate %
1958	March	29th	$3\frac{1}{4}$
	June	7th	3
	August	20th	$2\frac{1}{2}$
	November	29th	$2\frac{1}{4}$
1960	January	27th	$2\frac{1}{2}$
	May	28th	$2\frac{3}{4}$
	June	29th	$3\frac{1}{4}$
	November	26th	3
1961	August	12th	$3\frac{1}{2}$
	November	25th	$3\frac{1}{4}$
1962	March	24th	3
	April	28th	$2\frac{3}{4}$
	August	25th	$2\frac{1}{2}$
1963	January	19th	$2\frac{1}{4}$

The following table shows the number and value of applications for certificates received in the Bank over the last few years and the value of certificates surrendered. On page 183 of the *Quarterly Bulletin* for September 1962 figures were given for a number of past years; these, however, were years ending on the 30th September when the amount outstanding is normally much higher than at the end of February.

Year to end-Feb.	Rate of Interest in force at end-Feb.	Applications			Surrenders			Change during year	Outstanding at end of period
		Number	Average value per application	Total value	Cancelled in payment of taxes	Repaid without interest	Total		
	%	*000's*	*£000's*	*£ millions*					
1959	2¼	73	5·1	371	304	4	308	+63	396
1960	2½	75	3·9	295	341	3	344	−49	347
1961	3	91	4·3	391	337	9(a)	346	+45	392
1962	3¼	104	3·6	374	364	3	367	+ 7	399
1963	2¼	94	3·0	279	323	4	327	−48	351

EXCHANGE CONTROL

The main changes in the administration of Exchange Control were as follows:

Direct investment abroad and the 'switch' dollar market: 17th May 1962

The Chancellor of the Exchequer announced that direct investments outside the sterling area which would have been authorised before July 1961, but which did not satisfy the stricter test then instituted, would in future be allowed to take place through the 'switch' dollar market or by means of suitable borrowing abroad. At the same time, it became permissible for dollar securities owned by residents to be switched into other foreign currency securities, and for residents of the overseas sterling area to buy dollar securities in the United Kingdom.

Travel: 1st August 1962

The requirement that passports should be marked to show the amount of foreign exchange facilities provided for travel outside the Scheduled Territories was abolished, and authority to issue to travellers the equivalent of up to £250 each per journey instead of per annum as hitherto was delegated to banks and authorised travel agents. Since then travellers have also been permitted to retain unused foreign exchange facilities for nine months, if they wish to use them for subsequent travel.

Travel: 30th August 1962

It became legal for travellers to spend or exchange abroad the £50 of sterling notes which they are permitted to take with them.

OTHER ITEMS

The Bank have continued to receive throughout the year much assistance and close co-operation from market institutions, particularly the associations of banks, finance houses, insurance companies, and the commodity markets. This co-operation brings many advantages in the execution of monetary policy, and the Bank wish to record their appreciation of the help they have received in this way.

3½% War Loan Bearer Bonds

Coupons on 3½% War Loan Bearer Bonds were exhausted by the payment of the coupon due the 1st December 1962 and the opportunity was taken to introduce a new style of bond, in replacement of some 51,000 bonds (value about £13 million) outstanding. The new bond is smaller than its predecessor, measuring nine inches by six inches, and is within the limits for share documents recommended jointly by The Stock Exchange and The Chartered Institute of Secretaries. The coupons, on the other hand, have been considerably enlarged and measure six inches by three inches with space for magnetic marking which will enable them, ultimately, to be processed electronically.

(a) These surrenders were largely offset by purchases of new certificates bearing a higher rate of interest.

With this in mind the number of coupons on the bonds has been limited to cover only four years.

Protection of Depositors Bill

A Bill was laid before Parliament on the 21st November 1962 proposing measures:

(*a*) to make it an offence to issue reckless or fraudulent appeals for deposits;

(*b*) to restrict the issue of advertisements inviting the public to invest money by way of deposit; and, subject to exemptions for banks and some others, to regulate the content of such advertisements;

(*c*) to secure that, unless exempted by the Board of Trade, companies which issue such advertisements deliver to the Board, and to depositors, adequate accounts and information relating to their business;

(*d*) to deprive private companies engaging in this form of business of the status of private company for the purposes of certain exemptions available under the Companies Act, 1948.

When this Report was approved for issue the Bill was awaiting the Royal Assent.

Stock Transfer Bill

A Bill was introduced into the House of Lords by Lord Clitheroe providing for the simplification of the procedure for the transfer of fully paid securities. The Bill embodies the recommendations made by the Committee on Transfer of Securities convened by the Chairman of The Stock Exchange and on which the Bank are represented.

When this Report was approved for issue the Bill was awaiting the Royal Assent.